

**VILLAGE OF POSEN**  
**PRESQUE ISLE COUNTY, MICHIGAN**  
71-3020  
**Report on Financial Statements**  
**For the Fiscal Year Ended December 31, 2003**

VILLAGE OF POSEN  
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VILLAGE OF POSEN

ELECTED OFFICIALS

DECEMBER 31, 2003

President

Edmond Lauzon

Clerk

Julia Litwinski

Treasurer

Marcia Urban

Trustees

Dennis Chalupniczak

Ed Krajniak

David Krentz

Donald Roznowski

Ronald Stoinski

Laurie Wozniak

August 27, 2004

The Honorable Village Council  
Village of Posen  
Presque Isle County, Michigan

I have audited the accompanying general-purpose financial statement of the Village of Posen, State of Michigan, and the combining, individual fund and account group financial statements arising from cash transactions of the Village, as of and for the year ended December 31, 2003, as listed in the table of contents. These financial statements are the responsibility of the Village of Posen, State of Michigan management. My responsibility is to express an opinion on these general-purpose financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, as well as by the *Bulletin for Audits and Standards*, issued by the Office of the State Treasurer, State of Michigan. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As described in Note 2, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

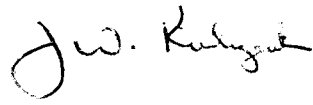
In my opinion, the accompanying general-purpose financial statements present fairly the assets and liabilities of the Village of Posen, State of Michigan at December 31, 2003, arising from cash transactions, and its receipts collected and disbursements paid during the year then ended, on a basis consistent with that of the preceding year as described in Note 2.

In accordance with *Government Auditing Standards*, I have also issued my report dated August 27, 2004 on my consideration of the Village of Posen's internal control over financial reporting and on my tests of its compliance with certain provisions of laws,

Independent Auditor's Report  
(Continued)

regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Village of Posen's basic financial statement. The combining and individual fund financial statements, as well as all included schedules, are not required parts of the general-purpose financial statement of the Village of Posen, State of Michigan. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in my opinion, is fairly presented in all material respects in relation to the general-purpose financial statements taken as a whole.



# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>POSEN</b>	County <b>PRESQUE ISLE</b>
Audit Date <b>12/31/03</b>	Opinion Date <b>8/27/04</b>	Date Accountant Report Submitted to State: <b>9/15/04</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

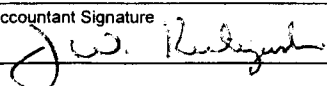
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).	✓		
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) <b>J.W. KIELISZEWSKI, CPA, PC</b>			
Street Address <b>476 NORTH THIRD ST</b>	City <b>ROGERS CITY</b>	State <b>MI</b>	ZIP <b>49779</b>
Accountant Signature 		Date <b>9/15/04</b>	

VILLAGE OF POSEN  
COMBINED BALANCE SHEET

DECEMBER 31, 2003

	<u>Government Fund Types</u>		<u>Proprietary</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Enterprise</u>
<u>ASSETS</u>			
Cash in Bank:			
Checking	\$ 20,962	\$ 80,718	\$ 21,041
Investments	40,959	133,575	64,897
Special Assessments Receivable	-	-	372,140
Due from Other Funds	2,835	-	-
Fixed Assets	<u>-</u>	<u>-</u>	<u>1,499,660</u>
 Total Assets	 <u>\$ 64,756</u>	 <u>\$ 214,293</u>	 <u>\$ 1,957,738</u>
 <u>LIABILITY &amp; FUND EQUITY</u>			
Liabilities:			
Withholding Tax Payable	\$ 597	\$ -	\$ 418
Deferred Revenue-Special Assessments	-	-	372,140
Due to Other Funds	-	-	2,835
Bonds Payable	<u>-</u>	<u>-</u>	<u>479,000</u>
Total Liabilities	<u>597</u>	<u>-</u>	<u>854,393</u>
 Fund Equity:			
Fixed Assets	-	-	-
Retained Earnings	-	-	1,103,345
Fund Balances:			
Reserved	-	-	-
Unreserved	<u>64,159</u>	<u>214,293</u>	<u>-</u>
Total Fund Equity	<u>64,159</u>	<u>214,293</u>	<u>1,103,345</u>
 Total Liabilities & Fund Equity	 <u>\$ 64,756</u>	 <u>\$ 214,293</u>	 <u>\$ 1,957,738</u>



Account Group

<u>Fixed</u> <u>Assets</u>	<u>Total</u> <u>(Memo only)</u>
\$ -	\$ 122,721
-	239,431
-	372,140
-	2,835
<u>146,246</u>	<u>1,645,906</u>
<u>\$ 146,246</u>	<u>\$ 2,383,033</u>
\$ -	\$ 1,015
-	372,140
-	2,835
<u>-</u>	<u>479,000</u>
<u>-</u>	<u>854,990</u>
146,246	146,246
-	1,103,345
-	-
<u>-</u>	<u>278,452</u>
<u>146,246</u>	<u>1,528,043</u>
<u>\$ 146,246</u>	<u>\$ 2,383,033</u>

See accompanying notes to financial statements.

VILLAGE OF POSEN

COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS &  
CHANGES IN FUND BALANCES  
ALL GOVERNMENTAL TYPES

FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>General</u>	<u>Special Revenue</u>	<u>Total (Memo Only)</u>
<u>RECEIPTS</u>			
Taxes	\$ 16,983	\$ -	\$ 16,983
Intergovernmental	26,837	30,053	56,890
Rent	3,960	-	3,960
Interest & Miscellaneous	<u>3,042</u>	<u>3,198</u>	<u>6,240</u>
Total Receipts	<u>50,822</u>	<u>33,251</u>	<u>84,073</u>
<u>DISBURSEMENTS</u>			
General Government	29,959	1,586	31,545
Public Safety	5,803	-	5,803
Public Works	4,550	15,729	20,279
Capital Outlay	<u>23,469</u>	<u>-</u>	<u>23,469</u>
Total Disbursements	<u>63,781</u>	<u>17,315</u>	<u>81,096</u>
Excess (Deficiency) of Receipts over Disbursements	(12,959)	15,936	2,977
FUND BALANCE - Beginning of Year	<u>77,118</u>	<u>198,357</u>	<u>275,475</u>
FUND BALANCE - End of Year	<u>\$ 64,159</u>	<u>\$214,293</u>	<u>\$ 278,452</u>

See accompanying notes to financial statements.

VILLAGE OF POSEN  
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS &  
CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
GENERAL AND SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>General Funds</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<u>RECEIPTS</u>			
Taxes	\$ 14,100	\$ 16,983	\$ 2,883
Intergovernmental	18,700	26,837	8,137
Rent	3,600	3,960	360
Interest & Miscellaneous	<u>1,200</u>	<u>3,042</u>	<u>1,842</u>
Total Receipts	<u>37,600</u>	<u>50,822</u>	<u>13,222</u>
<u>DISBURSEMENTS</u>			
General Government	38,457	29,959	8,498
Public Safety	6,800	5,803	997
Public Works	6,250	4,550	1,700
Capital Outlay	<u>26,000</u>	<u>23,469</u>	<u>2,531</u>
Total Disbursements	<u>77,507</u>	<u>63,781</u>	<u>13,726</u>
Excess (Deficiency) of Receipts over Disbursements	(39,907)	(12,959)	26,948
FUND BALANCE - Beginning of Year	<u>77,118</u>	<u>77,118</u>	<u>-</u>
FUND BALANCE - End of Year	<u>\$ 37,211</u>	<u>\$ 64,159</u>	<u>\$ 26,948</u>

<u>Special Revenue Funds</u>		
<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
\$ -	\$ -	\$ -
27,000	30,053	3,053
-	-	-
<u>750</u>	<u>3,198</u>	<u>2,448</u>
<u>27,750</u>	<u>33,251</u>	<u>5,501</u>
8,500	1,586	6,914
-	-	-
40,500	15,729	24,771
<u>-</u>	<u>-</u>	<u>-</u>
<u>49,000</u>	<u>17,315</u>	<u>31,685</u>
(21,250)	15,936	37,186
<u>198,357</u>	<u>198,357</u>	<u>-</u>
<u>\$ 177,107</u>	<u>\$214,293</u>	<u>\$ 37,186</u>

See accompanying notes to financial statements.

VILLAGE OF POSEN  
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS &  
CHANGES IN FUND BALANCES  
ALL PROPRIETARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>Enterprise</u>
Operating Receipts-Product Sales	\$ <u>979</u>
Operating Disbursements:	
Wages	15,202
Utilities & General Expenses	2,182
Operating Supplies	<u>8,270</u>
Total Disbursements	<u>25,654</u>
Operating Income (Loss)	(24,675)
Non-Operating Receipts:	
Special Assessments	45,043
Intergovernmental - Federal funds	686,700
Interest & Other	<u>2,472</u>
Total Non-Operating Income	734,215
Non-Operating Expenses - Interest	<u>29,117</u>
Excess (Deficiency) of Revenue over Expenditures	680,423
Fund Balance, Beginning of Year	<u>422,922</u>
Fund Balance, End of Year	<u>\$ 1,103,345</u>

See accompanying notes to financial statements.

VILLAGE OF POSEN  
COMBINED STATEMENT OF CASH FLOWS  
ALL PROPRIETARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>Enterprise</u>
Cash Flows from Operating Activities:	
Cash received	\$ 979
Cash payments to suppliers	<u>(22,401)</u>
Net Cash Provided by Operating Activities	(21,422)
Cash Flows from Non-Capital Financing Activities:	
Special assessment contributions	15,926
Federal grants	686,700
Interest and Miscellaneous	<u>2,472</u>
Net Cash Provided by Non-Capital Financing Activities	705,098
Cash Flows from Capital & Related Financing Activities:	
Fixed asset acquisition	(686,677)
Payment of Long-term Debt	<u>(4,000)</u>
Net Cash Used for Capital & Related Financing Activities	(690,677)
Net Increase (Decrease) in Cash & Equivalents	(7,001)
Cash & Cash Equivalents, beginning of year	<u>92,939</u>
Cash & Cash Equivalents, end of year	<u><u>\$ 85,938</u></u>

See accompanying notes to financial statements.

VILLAGE OF POSEN  
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2003

**NOTE 1 – DESCRIPTION OF VILLAGE OPERATIONS AND FUND TYPES**

The Village of Posen, State of Michigan (the “Village”) is located in Presque Isle County and was organized in 1877. It covers an area of approximately one square mile. The Village operates under an elected Council comprised of a President, Treasurer, Clerk and six Trustees, and provides services to its approximately 300 full-time residents.

**Basis of Presentation**

The Village financial activity has been defined in accordance with GASB #14 – “The Financial Reporting Entity” – and the local unit activities are recorded in separate funds and account groups, categorized and described as follows:

**Governmental Funds:**

General Fund: This fund is used to account for all financial transactions except those required to be accounted for in other specific funds. This fund includes the general operating expenditures of the local unit. Receipts are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Special Revenue Funds: These funds are used to account for specific governmental revenues (other than special assessments and major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

**Proprietary Funds:**

Enterprise Funds: These funds are used to account for operations: (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**Account Groups:**

General Fixed Assets Account Groups: This asset group presents the fixed assets of the local unit utilized in its general operations (nonproprietary fixed assets).

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Village conform to generally accepted accounting principles as applicable to governmental units with exception of the basis of accounting. The following is a summary of applicable significant policies:

Basis of Accounting:

The Village for monthly operations utilizes the cash basis of accounting. At year end, adjustments necessary to effect the modified accrual basis of accounting were immaterial.

Cash Flows Statement:

For the purposes of the statements of cash flows, the Water Fund considers all highly liquid investments (including restricted assets) to have maturity of three months or less when purchased to be cash equivalents.

Investments:

Investments (savings accounts or certificates of deposit) are stated at cost.

Inventories:

Inventories are not significant.

General Fixed Assets:

The General Fixed Assets Group of accounts was established on March 31, 1977 by using estimated fair market values as the basis. Additions subsequent to this date are at cost. General Fixed Assets purchased are recorded as expenditures in the fund purchased at time of purchase. Such assets are capitalized at cost in the General Fixed Assets Group of accounts except for improvements on roads. No depreciation has been provided on general fixed assets.

Property Taxes Receivable – Delinquent:

Accounting for revenues from Village property taxes prior to December 31, 2003 and in the current financial statement has been on a cash basis; that is, property



NOTES TO FINANCIAL STATEMENTS  
(Continued)

taxes are recognized as revenues only when paid to the Village. The County of Presque Isle has a revolving tax fund effective in the current year.

**NOTE 3 – BUDGETS AND BUDGETARY ACCOUNTING**

The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to November 1, the Clerk submits to the Village Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at the Village Hall to obtain taxpayer comments.
3. Prior to the third week in December, the budget is legally enacted through passage of a resolution.
4. All budget adjustments are approved by Village Council resolution.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds.
6. Budgets for the General and Special Revenue Funds are adopted on a cash basis. Budgeted amounts are as originally adopted, or as amended by the Village Council. Individual amendments were not material in relation to the original appropriations.

**NOTE 4 – TOTAL COLUMNS ON COMBINED STATEMENTS – OVERVIEW**

Total columns on the Combined Statements – Overview are captioned “Memorandum Only” to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles, nor is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTES TO FINANCIAL STATEMENTS  
(Continued)

**NOTE 5 – CHANGES IN GENERAL FIXED ASSETS**

A summary of changes in general fixed assets follows:

	Balance 1/1/2003	Additions	Deletions	Balance 12/31/2003
Land	\$ 12,620	\$ -	\$ -	\$ 12,620
Land Improvements	-	22,777	-	22,777
Buildings	46,837	-	-	46,837
Equipment	<u>63,320</u>	<u>692</u>	<u>-</u>	<u>64,012</u>
Total	<u>\$ 122,777</u>	<u>\$ 23,469</u>	<u>\$ -</u>	<u>\$ 146,246</u>

**NOTE 6 – RISK FINANCING AND RELATED INSURANCE ISSUES**

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical and worker's compensation benefits provided to employees. The Village has purchase commercial insurance for property, personal liability, umbrella coverage, worker's compensation and medical benefits claims. Settled claims have not exceeded the amount of insurance coverage in any of the past three years (see GASB Codification §C-50.141).

**NOTE 7 – SUMMARY OF CURRENT PROPERTY TAX COLLECTIONS AND DISBURSEMENTS**

2003 Tax Levy	2003 Tax Roll	Tax Roll Returned To County Uncollected 2003 Taxes	Collected 2003 Current Taxes, Fees & Other
<u>Current Property Taxes, Fees &amp; Others</u>			
Village of Posen	<u>\$15,784</u>	<u>\$1,004</u>	<u>\$14,780</u>
2003 SEV	\$4,329,009		
2003 Taxable Value	\$3,792,584		

Taxes are levied on December 1 of each year and are payable by February 15 of the following year. Payments after the February 15, date are considered delinquent.

**NOTE 8 – BALANCE SHEET CASH AND CERTIFICATES OF DEPOSIT**

Deposits are carried at cost. Deposits of the Village are at Citizens National Bank in the name of the Village. Act 217, PA 1002 authorizes the Village to deposit and invest in the accounts of federally insured banks, insured credit unions and savings and loan associations; bonds and other direct obligations of the United States, or an agency of instrumentality of the United States; United States government or federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rated by two standard rating agencies within the three highest classifications, which mature not more than 270 days after the date of purchase, and which involve no more than 50 percent (50%) of any one fund. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of money.

The Village's deposits are in accordance with statutory authority. The Governmental Accounting Standards Council (GASB) Statement No. 3 risk disclosures for the Village's cash deposits are as follows:

Deposits	Insured	Uninsured	Total
Huron National Bank	\$ 15,130	\$ ---	\$ 15,130
Citizens National Bank	100,000	---	100,000
Calcite Credit Union	<u>100,000</u>	<u>---</u>	<u>100,000</u>
Totals	<u>\$215,130</u>	<u>\$ ---</u>	<u>\$215,130</u>

**NOTE 9 – COMPENSATED ABSENCES**

There are no compensated absences provided by the Village, which would require disclosure under GASB Codification §C-60.

**NOTE 10 – PENSION PLANS**

The Village has a defined contribution pension plan covering all full-time employees. The Village contributes an amount of each employee's annual salary to the plan. Pension expense of the fiscal year ended December 31, 2003 was \$1,108. Information necessary to disclose pension information as required by GASB and FASB were not available.

The plan was established in lieu of participation with the Social Security system. The Village is responsible to make payments to the plan at a council-approved percentage of payroll rates. The Village has no ownership or responsibility for benefit payments to its

employees. Sole responsibility for benefit payments has been transferred to its underwriter in the plan.

#### **NOTE 11 – LONG-TERM DEBT**

Pursuant to Act 3 of the Public Acts of Michigan of 1895, as amended (the “Act”) and the Ordinance to Provide a Means and Procedure of the Levying and Collection of Special Assessments (the “Ordinance”), the Village council levied special assessments for the purpose of defraying part of the cost of construction of a water supply system within the Water Supply System Special Assessment District (the “District”). The improvements will enable the Village to provide more efficient and better quality public services to Village residents. The cost of making the improvements is estimated to be \$1,581,000, of which the sum of \$483,200 has been specially assessed. The improvements are financed in part by a grant of not to exceed \$1,083,000 from the United States of America, and the portion of the cost of making the improvement which has been specially assessed shall be financed by the issuance to the United States of America of special assessment bonds or other evidences of indebtedness in the amount of \$483,000 for a period of forty (40) years, in anticipation of the collection of special assessments in accordance with the Act and the Ordinance. The Village issued special assessment bonds, Series 2002, in the aggregate principal sum of \$483,000 in anticipation of the collection of special assessments confirmed by the Village council on a special assessment roll against lots and parcels of property in the District. Special assessments in the amount of \$483,200 and the interest thereon are pledged to the payment of the principal and interest on the bonds. The Village also pledged its full faith and credit, limited tax, general obligation to the prompt payment of principal of premium, if any, and interest on the bonds. In the event that there are insufficient moneys for the payment of principal, premium, if any, or interest of any of the bonds when due, the Village shall levy a tax on all the taxable property in the Village for the payment, which tax shall be limited as to rate and amount by applicable constitutional and statutory limitations on the taxing power of the Village. The pledge of the Village’s full faith and credit shall be a first budget item in the event of insufficient moneys. The bonds are issued in registered form as to both principal and interest and in denominations of \$1,000 each or any whole multiple thereof; provided that no bond may include principal maturing in more than one year; shall be sold and delivered to the United States of America; shall be dated the date of initial delivery to the United States of America; and shall be issued and delivered as one fully registered manuscript bond in the amount of \$483,000. The bonds bear interest at a rate of not to exceed 5.25% per annum, payable semi-annually on the first day of January and July in each year, commencing January 1, 2003, and continuing thereafter until the principal and

NOTES TO FINANCIAL STATEMENTS  
(Continued)

interest on the bonds is fully paid. The bonds are to mature serially on the first day of July of each year as follows:

	<u>Amount</u>
2004	\$ 4,000
2005	5,000
2006	5,000
2007	5,000
2008	5,000
Thereafter	<u>455,000</u>
	<u>\$ 479,000</u>

VILLAGE OF POSEN

GENERAL FUND

BALANCE SHEET

DECEMBER 31, 2003

ASSETS

Checking	\$ 20,962
Investments	40,959
Due from Other Funds	<u>2,835</u>
Total Assets	<u>\$ 64,756</u>

LIABILITIES & FUND BALANCE

Liabilities:

Withholding Payable	<u>\$ 597</u>
Total Liabilities	<u>597</u>

Fund Balances:

Unreserved	<u>64,159</u>
Total Fund Balances	<u>64,159</u>

Total Liabilities & Fund Balances	<u>\$ 64,756</u>
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See accompanying notes to financial statements.

VILLAGE OF POSEN

GENERAL FUND

STATEMENT OF RECEIPTS, DISBURSEMENTS &  
CHANGES IN FUND BALANCE

FOR THE YEAR ENDED DECEMBER 31, 2003

RECEIPTS

Taxes	\$ 16,983
Intergovernmental	26,837
Rent	3,960
Interest & Miscellaneous	<u>3,042</u>
Total Receipts	<u>50,822</u>

DISBURSEMENTS

General Government	29,959
Public Safety	5,803
Public Works	4,550
Capital Outlay	<u>23,469</u>
Total Disbursements	<u>63,781</u>

Excess (Deficiency) of Receipts  
over Disbursements (12,959)

FUND BALANCE - Beginning of Year 77,118

FUND BALANCE - End of Year \$ 64,159

See accompanying notes to financial statements.

VILLAGE OF POSEN  
GENERAL FUND  
STATEMENT OF RECEIPTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<b><u>RECEIPTS</u></b>			
TAXES: Village Property Tax Collection			
Current	\$ 14,000	\$ 15,492	\$ 1,492
Delinquent	<u>100</u>	<u>1,492</u>	<u>1,392</u>
Total Taxes	<u>14,100</u>	<u>16,984</u>	<u>2,884</u>
INTERGOVERNMENTAL			
State Shared Revenue	18,000	26,136	8,136
Liquor Control	<u>700</u>	<u>701</u>	<u>1</u>
Total Intergovernmental	<u>18,700</u>	<u>26,837</u>	<u>8,137</u>
RENT	<u>3,600</u>	<u>3,960</u>	<u>360</u>
INTEREST ON INVESTMENTS	<u>600</u>	<u>597</u>	<u>(3)</u>
MISCELLANEOUS RECEIPTS	<u>600</u>	<u>2,444</u>	<u>1,844</u>
<b>TOTAL GENERAL FUND RECEIPTS</b>	<u><u>\$ 37,600</u></u>	<u><u>\$ 50,822</u></u>	<u><u>\$ 13,222</u></u>

See accompanying notes to financial statements.



VILLAGE OF POSEN  
GENERAL FUND  
STATEMENT OF DISBURSEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

<u>DISBURSEMENTS</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
GENERAL GOVERNMENT			
Village Council / Admin.	\$ 27,927	\$ 21,206	\$ 6,721
President	1,320	1,245	75
Clerk	4,000	3,208	792
Treasurer	2,600	1,887	713
Planning & Zoning	1,500	1,305	195
Pension Fund	<u>1,110</u>	<u>1,108</u>	<u>2</u>
Total General Government	<u>38,457</u>	<u>29,959</u>	<u>8,498</u>
PUBLIC SAFETY			
Street Lights	6,000	5,063	937
Liquor Control	<u>800</u>	<u>740</u>	<u>60</u>
Total Public Safety	<u>6,800</u>	<u>5,803</u>	<u>997</u>
PUBLIC WORKS - Department Operation	<u>6,250</u>	<u>4,550</u>	<u>1,700</u>
CAPITAL OUTLAY – Equipment	<u>26,000</u>	<u>23,469</u>	<u>2,531</u>
<b>TOTAL GENERAL FUND DISBURSEMENTS</b>	<u>\$ 77,507</u>	<u>\$ 63,781</u>	<u>\$ 13,726</u>

See accompanying notes to financial statements.

VILLAGE OF POSEN  
SPECIAL REVENUE FUNDS  
COMBINING BALANCE SHEET  
DECEMBER 31, 2003

<u>ASSETS</u>	Major <u>Streets</u>	Local <u>Streets</u>	<u>Total</u>
Cash - Checking	\$ 54,770	\$ 25,948	\$ 80,718
Investments	<u>133,575</u>	<u>-</u>	<u>133,575</u>
Total Assets	<u>\$ 188,345</u>	<u>\$ 25,948</u>	<u>\$ 214,293</u>
<u>FUND EQUITY</u>			
Unreserved	<u>\$ 188,345</u>	<u>\$ 25,948</u>	<u>\$ 214,293</u>

See accompanying notes to financial statements.

VILLAGE OF POSEN  
SPECIAL REVENUE FUNDS  
COMBINING STATEMENT OF  
RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>Major Streets</u>	<u>Local Streets</u>	<u>Total</u>
<u>RECEIPTS</u>			
State Shared Revenue	\$ 22,363	\$ 7,690	\$ 30,053
Interest & Miscellaneous	<u>3,082</u>	<u>116</u>	<u>3,198</u>
Total Receipts	<u>25,445</u>	<u>7,806</u>	<u>33,251</u>
<u>DISBURSEMENTS</u>			
General Government / Admin.	1,304	282	1,586
Public Works	<u>13,353</u>	<u>2,376</u>	<u>15,729</u>
Total Expenditures	<u>14,657</u>	<u>2,658</u>	<u>17,315</u>
Excess (Deficiency) of Receipts over Disbursements	10,788	5,148	15,936
FUND BALANCE, Beginning of Year	<u>177,557</u>	<u>20,800</u>	<u>198,357</u>
FUND BALANCE, End of Year	<u>\$ 188,345</u>	<u>\$ 25,948</u>	<u>\$ 214,293</u>

See accompanying notes to financial statements.

VILLAGE OF POSEN  
PROPRIETARY FUNDS  
BALANCE SHEET  
DECEMBER 31, 2003

	<u>Enterprise</u>
<u>ASSETS</u>	
Cash in Bank:	
Checking	\$ 21,041
Investments	64,897
Special Assessments Receivable	372,140
Fixed Assets - Construction in Process	<u>1,499,660</u>
Total Assets	<u>\$ 1,957,738</u>
<u>LIABILITIES &amp; FUND EQUITY</u>	
Liabilities:	
Withholding Tax Payable	\$ 418
Due to Other Funds	2,835
Deferred Revenue - Special Assessments	372,140
Bonds Payable	<u>479,000</u>
Total Liabilities	854,393
Fund Equity:	
Reserved	<u>1,103,345</u>
Total Fund Equity	<u>1,103,345</u>
Total Liabilities & Fund Equity	<u>\$ 1,957,738</u>

See accompanying notes to financial statements.

VILLAGE OF POSEN  
 PROPRIETARY FUNDS  
 STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES  
 IN FUND BALANCES  
 FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>Enterprise</u>
Operating Receipts-Product Sales	<u>\$ 979</u>
Operating Disbursements:	
Wages	15,202
Utilities & General Expenses	2,182
Operating Supplies	<u>8,270</u>
Total Disbursements	<u>25,654</u>
Operating Income (Loss)	(24,675)
Non-Operating Receipts:	
Special Assessments	45,043
Intergovernmental - Federal funds	686,700
Interest & Other	<u>2,472</u>
Total Non-Operating Income	734,215
Non-Operating Expenses – Interest	<u>29,117</u>
Excess (Deficiency) of Revenue over Expenditures	680,423
Fund Balance, Beginning of Year	<u>422,922</u>
Fund Balance, End of Year	<u>\$ 1,103,345</u>

See accompanying notes to financial statements.

VILLAGE OF POSEN  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>Enterprise</u>
Cash Flows from Operating Activities:	
Cash received	\$ 979
Cash payments to suppliers	<u>(22,401)</u>
Net Cash Provided by Operating Activities	(21,422)
Cash Flows from Non-Capital Financing Activities:	
Special assessment contributions	15,926
Federal grants	686,700
Interest and Miscellaneous	<u>2,472</u>
Net Cash Provided by Non-Capital Financing Activities	705,098
Cash Flows from Capital & Related Financing Activities:	
Fixed asset acquisition	(686,677)
Payment of Long-term Debt	<u>(4,000)</u>
Net Cash Used for Capital & Related Financing Activities	(690,677)
Net Increase (Decrease) in Cash & Equivalents	(7,001)
Cash & Cash Equivalents, beginning of year	<u>92,939</u>
Cash & Cash Equivalents, end of year	<u><u>\$ 85,938</u></u>

See accompanying notes to financial statements.

VILLAGE OF POSEN  
GENERAL FIXED ASSETS GROUP OF ACCOUNTS  
BALANCE SHEET  
DECEMBER 31, 2003

ASSETS

Land	\$ 12,620
Land Improvements	22,777
Buildings	46,837
Furniture, Fixtures & Equipment	<u>64,012</u>

Total Assets	<u>\$ 146,246</u>
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FUND EQUITY

Investment in General Fixed	
Assets Balance 12/31/03	<u>\$ 146,246</u>

See accompanying notes to financial statements.

August 27, 2004

**Report on Compliance with Requirements Applicable to Each Major Program and  
on Internal Control Over Compliance in Accordance with OMB Circular A-133  
(Unqualified Opinion on Compliance and No Material Weaknesses)**

Honorable Village Council  
Village of Posen  
Presque Isle County, Michigan

Compliance

I have audited the compliance of the Village of Posen with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2003. The Village of Posen's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Village of Posen's management. My responsibility is to express an opinion on the Village of Posen's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United State of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Village of Posen's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the Village of Posen's compliance with those requirements.

In my opinion, the Village of Posen complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2003.

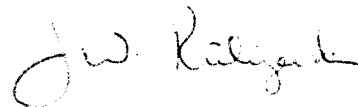


Internal Control Over Compliance

The management of the Village of Posen is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered the Village of Posen's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management of the Village of Posen, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



August 27, 2004

**Report on Compliance and on Internal Control Over Financial Reporting Based on  
an Audit of Financial Statements Performed in Accordance With *Government  
Auditing Standards (No Reportable Instances of Noncompliance and No Material  
Weaknesses)***

Honorable Village Council  
Village of Posen  
Presque Isle County, Michigan

I have audited the financial statements of the Village of Posen, State of Michigan, as of and for the year ended December 31, 2003, and have issued my report thereon dated August 27, 2004. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village of Posen's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

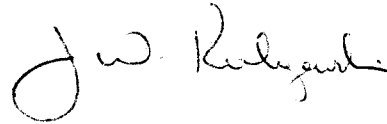
Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Village of Posen's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their

Report on Compliance and Internal  
Control – *Government Auditing Standards*  
(Continued)

assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management of the Village of Posen, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "J. W. Kutzner". The signature is written in a cursive style with a large initial "J" and "W".

VILLAGE OF POSEN  
SCHEDULE OF DISBURSEMENTS OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2003

<u>Federal Grant Grantor/Program Title</u>	<u>Federal CDFA #</u>	<u>Award Amount</u>	<u>Beginning Balance 1/1/2003</u>
United States Department of Agriculture (RUS)	10.760	<u>\$ 1,083,000</u>	<u>\$ -</u>
Totals		<u>\$ 1,083,000</u>	<u>\$ -</u>

<u>Receipts Recognized</u>	<u>Current Disbursements</u>	<u>Ending Balance 12/31/2003</u>
<u>\$ 686,700</u>	<u>\$ 686,677</u>	<u>\$ 23</u>
<u>\$ 686,700</u>	<u>\$ 686,677</u>	<u>\$ 23</u>

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying Schedule of Disbursements of Federal Funds includes the grant activity of the Village of Posen, and is presented on the cash basis of accounting. The information is presented in accordance with the requirement of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

VILLAGE OF POSEN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

**Section I – Summary of Auditor's Results**

Financial Statements

Type of auditor's report issued:	Qualified (cash basis)		
Internal control over financial reporting:			
Material weaknesses identified?	_____	yes	___x___ no
Reportable condition identified that is			
not considered to be material weakness?	_____	yes	___x___ no
Noncompliance material to financial statements noted?	_____	yes	___x___ no

Federal Awards

Internal control over major programs:			
Material weakness identified?	_____	yes	___x___ no
Reportable condition identified that is			
not considered to be material weakness?	_____	yes	___x___ no

Type of auditor's report issued on compliance for  
Major programs:

Any audit findings disclosed that are required to be reported in accordance with §510(a) of Circular A-133?	_____	yes	___x___ no
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Identification of major programs:

<u>CFDA</u>	<u>Name of Federal Program</u>
10.760	Rural Development – Water System

Dollar threshold used to distinguish between type A and type B programs:	<u>\$300,000</u>
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Auditee qualified as low-risk auditee?	___x___	yes	_____ no
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Schedule of Findings and  
Questioned Costs  
(Continued)

**Section II – Financial Statement Findings**

None

**Section III – Federal Award Findings and Questioned Costs**

None

**Prior Year Activity**

Yes – Single Audit Performed

August 27, 2004

LETTER OF COMMENTS AND RECOMMENDATIONS

Honorable President and  
Village Council Members  
Village of Posen  
Presque Isle County, Michigan

I wish to express my appreciation for the fine cooperation extended to me during the audit of your Village's Financial Statements.

As required, I have submitted to the State Treasurer's office two copies of the audited Financial Statements, which included this Letter of Comments and Recommendations. Ten (10) copies of the audited Financial Statements are herewith submitted. At one of your next regular Village Council meetings the audited Financial Statements should be formally accepted and the copy marked for this purpose made a part of your Minute Book. I will plan to attend that meeting and be prepared to make a brief presentation on the audit.

Prior to this audit I obtained written permission from Village officials to disclose immediately any findings of suspected fraud and/or embezzlement directly to the Deputy State Treasurer. During the course of the audit I noted no instances of suspected fraud and/or embezzlement.

The following comments and recommendations are submitted in the interest of improved accounting procedures, closer compliance with the various state and federal regulations and requirements.

Comments and Recommendations Pertaining to 2003 Audit Only

1. GASB #34

The implementation date for GASB #34 for your Village, which is a Phase III government entity, is for the year 2004. Fortunately, entities with a year ending between now and the end of 2004 will serve as models for us and should be available for review soon, since our next audit will not be due until next spring. This gives us time to implement whatever changes need to be made. Three areas in particular should be addressed:



a. Consideration #1: Capitalization Policy

The Village has maintained a General Fixed Asset group of accounts, so the assets are presumably all identified. The only question that remains is whether you own any infrastructure, which I feel would be limited to lake or streamside parking lots, boat ramps or special drainage facilities for problem areas. The county road commission is generally considered to own the road systems unless some seasonal township roads exist that are not certified or maintained by the county. Once identified, the Village Council needs to decide what is a material capitalization amount. There are two asset classes; while some describe them as sensitive and non-sensitive, the best explanation is to think of them as movable or non-movable. A building or other type of infrastructure cannot usually be stolen or lost; a computer, calculator, vehicle, etc. can. Thus, to safeguard assets, I suggest Village-adopted capitalization policies and depreciation of the same for movable assets at \$200 and non-movable assets at \$500. I further suggest you adopt the following life expectancies for depreciation:

Buildings	40 years
Building Improvements	30 years
Infrastructure	20 years
Furniture	15 years
Computers & Electronic Equipment	5 years

b. Consideration #2: Joint Ownership of Fire Protection or Ambulance Equipment

This is a complex issue and in some cases no audits or complete accounting systems are being utilized. Government entities should make sure that proper information or ownership issues are clarified to determine if they will have the information necessary to include such assets in their audit reports, or if such entities they are involved with have formed "authorities" or other methods that allow exclusion from audit consideration at the local government level.

c. Consideration #3: Management Discussion and Analysis (MD&A)

While small villages can elect out of this requirement of GASB 34, I feel it is something with which you can comply. It gives the Village Council an opportunity to voice its objectives, goals, successes, failures, further visions, etc. It need not be wordy or have any specific length. An honest, easy to understand statement will effectively communicate the facts of your financial statements, and I believe will help focus the leadership of the Village. You have a while to practice. I believe the Michigan governmental website will provide some examples in the future, so have someone keep checking. The Michigan Township Association forum and website has likewise provided

examples of both the MD&A and the Capitalization Policy, and can be utilized.

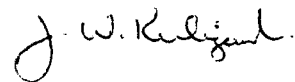
2. Acceptance by Village Council of Audited Financial Statements:

It is recommended that these Audited Financial Statements and recommendations be accepted by the Village Council by a motion similar to the following:

“Moved by \_\_\_\_\_ and seconded by \_\_\_\_\_, that the Village 2003 Audited Financial Statements be accepted as presented and that, insofar as possible, the recommendations made by our auditor in his Letter of Comments and Recommendations be followed.”

As indicated, I will plan to attend one of your next regular Village Council meetings. Please let me know your preferred date as soon as possible.

Sincerely,



J.W. Kieliszewski